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SUBJECT: GOVERNMENT, PRIVATE SECTOR AND UNIONS BATTLE FOR  
CONTROL OF CAFTA TRADE PREFERENCE LEVEL (TPL) QUOTAS

11. (SBU) SUMMARY: Nicaragua's government, private sector, and unions all realize that the preferential Tariff Preference Levels (TPLs) for textiles accorded to the country in the Central American Free Trade Agreement (CAFTA) mean money and power, and they are engaged in an ongoing struggle to determine who will allocate the TPLs, and in what manner. Fears of government bias and corruption in TPL distribution are widespread, but so far no one has provided any proof of official wrongdoing, nor concrete analysis that the private sector could do a better job. However, given Nicaragua's weak democratic institutions, the potential for corruption in TPLs is significant. END SUMMARY.

FACTORY OWNERS AND UNIONS WORRIED ABOUT BIASED GON TPL  
DISTRIBUTION

12. (SBU) During a February 8 visit by laboff to the Korean-owned free trade zone factory Guanica in Diriamba, both company managers and union representatives expressed concerns regarding the government's pending allocation of the special textile TPLs given Nicaragua by CAFTA. These treaty provisions will allow Nicaragua to ship 100 million SME (Square Meter Equivalents) in textiles made from components sourced from any non-U.S. or CAFTA country per year duty free. Echoing comments that emboffs have heard from others in the private sector, most notably the association of free trade zone textile manufacturers (ANITEC), union leaders and company managers at Guanica complained that the government is preparing to distribute these TPLs in a non-transparent, biased manner.

13. (SBU) Specifically, post interlocutors allege that the GON,s free trade zone corporation, which is managing the TPLs and insists it will do so fairly, plans to provide excessive TPL quotas to companies with strong political connections (especially Taiwanese-owned companies) at the expense of others (including Korean-owned companies). Factory managers at Guanica said they fear losing business as a result, while union leaders are worried that large TPLs will go to companies with poor labor rights records (many of which are Taiwanese), while factories with better labor situations will be disadvantaged because of a lack of political connections.

TEXTILE MANUFACTURERS CLAIM PRIVATE SECTOR CAN BETTER  
ALLOCATE TPLS, BUT FAIL TO PROVIDE ANY EVIDENCE

¶4. (SBU) ANITEC has alleged that if the government, and not the private sector, manages the TPLs, the process will be thoroughly corrupt. During a December meeting, ANITEC President Carlos Sandino told emboffs that his organization could distribute TPLs in a more equitable and transparent manner than the government, and he urged the Embassy to support ANITEC's position with the GON. ANITEC representatives told emboffs repeatedly that the Mexican experience with public management of TPLs had been rife with corruption. When emboffs requested documentation of that assertion, and available analysis demonstrating that private sector administration would be superior, ANITEC officials promised to document their claims, but none of the requested analysis has ever arrived at the Embassy.

¶5. (SBU) ANITEC has also failed to deliver any research demonstrating that the proposed TPL split between existing and new investments (70 - 30) meets economic development objectives based on market and employment projections. According to ANITEC and GON sources, the TPL split represents a compromise acceptable to both the public and private sectors. Finally, on February 6, in response to repeated Embassy requests for documentation of ANITEC's various assertions, econoff received a vague e-mail communication from the association claiming that an "accommodation" of the various private and public sector interests associated with the administration of the TPLs had been reached.

¶6. (SBU) Throughout the local debate, emboffs have emphasized that the TPLs were included in the CAFTA-DR agreement for Nicaragua as a special economic development tool to spur investment and associated job creation, mindful of the fact that Nicaragua's textile sector is appreciably smaller than those in neighboring countries. Emboffs have also indicated that the USG believes that the TPL percentage split between new and existing investments should be equitable and support economic development objectives by allowing for the introduction of diverse lines, making the sector more sustainable. Administration of the TPLs should also be as transparent and efficient as possible.

COMMENT

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¶7. (SBU) Government, business, and unions all realize that Nicaragua's special CAFTA TPLs mean money and power, and all want as much say as possible in their distribution. Given the country's weak democratic institutions, the potential for TPL-fueled corruption and influence peddling is significant, regardless of who ultimately makes the decisions on TPL allocation.

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